

Message Text

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ACTION EB-08

INFO OCT-01 AF-08 ARA-06 EUR-12 IO-13 ISO-00 SS-15 SP-02
NSC-05 CIAE-00 INR-07 NSAE-00 L-03 COME-00 OMB-01
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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9728
INFO AMEMBASSY BOGOTA
AMEMBASSY SAN JOSE
AMEMBASSY LONDON
AMEMBASSY ABIDJAN
AMEMBASSY GUATEMALA
AMEMBASSY SAN SALVADOR
AMEMBASSY MEXICO CITY
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION GENEVA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
AMEMBASSY TANANARIVE

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E.O. 11652: N/A
TAGS: EBAP ETRD BR CO
SUBJECT: COFFEE - BRAZIL'S ICO STRATEGY AND FOREIGN PURCHASES

REF: (A) BRASILIA 554, (B) LONDON 1049

1. SUMMARY. BRAZILIAN FONMIN OFFICIAL CLAIMED TO SEE SOME
BENEFIT FROM AN ICO STUDY. ACCORDING TO THE OFFICIAL, US
SUPPORT FOR THE STUDY PROPOSAL WOULD MAKE THE DIFFERENCE.
HE SAID "A" BRAZILIAN FOREIGN PURCHASE OF COFFEE LAST YEAR
MIGHT HAVE BEEN DESIGNED TO COUNTER "ARTIFICIAL DOWNWARD TRENDS"
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IN THE WORLD COFFEE MARKET. HE PROFESSED TO KNOW NOTHING ABOUT
ANOTHER MALAGASY PURCHASE. END SUMMARY.

2. ON JAN 21, EMBOFF SOUGHT VIEWS OF A KNOWLEDGEABLE
FONMIN OFFICIAL ON BRAZIL'S ICO STRATEGY AND FOREIGN
PURCHASES. THE OFFICIAL SAID THE IDEA OF AN ICO STUDY
RATHER THAN A MEETING (REF B) WAS THE LESSER OF TWO

EVILS AT THEIR POINT. COLOMBIA AND THE IVORY COAST NOW HAVE AGREED TO THE STUDY. ALL THAT REMAINS, THE OFFICIAL SAID, IS FOR THE US TO SUPPORT THE STUDY PROPOSAL -- THIS WOULD MAKE THE DIFFERENCE. THE OFFICIAL SAID THE STUDY SHOULD EXAMINE THE SUPPLY PICTURE FOR THE NEXT SEVERAL YEARS. HE ADDED THAT BRAZIL WAS NOT OPPOSED TO INCLUDING A LOOK AT PRICE INFORMATION, IF ONE WAS WANTED, BECAUSE BRAZIL'S HANDS WERE CLEAN. BUT THE EUROPEANS, WITH THEIR TARIFFS AND HIGH INTERNAL TAXES ON COFFEE, MIGHT NOT BE ENTHUSIASTIC ABOUT THE STUDY THAT LOOKED INTO THE COMPONENTS OF RETAIL PRICES. THE MAIN ATTRACTION TO BRAZIL OF A STUDY, THE OFFICIAL SAID, WOULD BE WHATEVER INFORMATION ICO STUDY TEAMS TURNED UP ON PLANTING IN AFRICA AND ELSEWHERE. "SUCH INFORMATION IS HARD TO GET."

3. THE OFFICIAL WARNED THAT IF THERE IS A WIDENED PRESS ATTACK BLAMING BRAZIL FOR TODAY'S HIGH COFFEE PRICES, BRAZIL WILL RETALIATE, IN THE ICO IN THE PRESS, AND PERHAPS ELSEWHERE. IN FACT, THE GOB NOW IS CONSIDERING WHETHER TO PREPARE A SHORT PAPER DEFENDING ITS MARKETING POLICIES. THE OFFICIAL SAID HE THOUGHT CONGRESSIONAL HEARINGS IN THE US MIGHT HELP GIVE RISE TO UNREASONED CRITICISM, "GIVEN THE POLITICAL OPPORTUNITIES OF WHICH SOME CONGRESSMEN MIGHT TAKE ADVANTAGE."

4. THE OFFICIAL EXPLAINED THAT IBC STOCKS AVAILABLE FOR THE DOMESTIC SOLUBLE INDUSTRY WERE GETTING LOW, THUS FOREIGN COFFEE PURCHASES WERE NEEDED "VERY SOON." OTHER-LIMITED OFFICIAL USE

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WISE THE SOLUBLE INDUSTRY WOULD HAVE TO COMPETE AGAINST BRAZILIAN EXPORTERS FOR HIGH-PRICED (UNSUBSIDIZED) COFFEE HELD IN PRIVATE STOCKS, AND THIS WOULD DRIVE UP THE PRICE OF SOLUBLE COFFEE. THE OFFICIAL COMMENTED THAT "ALTHOUGH I SHOULD NOT SAY IT, A FOREIGN PURCHASE LAST YEAR MIGHT HAVE BEEN MADE TO COUNTER ARTIFICIAL DOWNWARD TRENDS IN WORLD PRICES (ESPECULACOES BAIXISTAS)." TO MAKE PURCHASES NOW IN ORDER TO RAISE WORLD PRICES (RATHER THAN TO SUPPLY THE SOLUBLE INDUSTRY) WOULD HELP MAINLY THE AFRICANS SINCE BRAZIL HAS TO CUT DOWN ON ITS EXPORTS, THE OFFICIAL SAID. FURTHERMORE, BUYING NOW TO HOLD COFFEE OFF THE MARKET WOULD BE FINANCIALLY RISKY, EVEN THOUGH MANY PEOPLE EXPECT HIGHER PRICES IN THE FUTURE. THE OFFICIAL CLAIMED HE KNEW NOTHING ONE WAY OR THE OTHER ABOUT ANOTHER POSSIBLE MALAGASY PURCHASE. CRIMMINS

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